

**VILLAGE OF MACKINAW CITY**  
**MACKINAW CITY, MICHIGAN**



**FINANCIAL STATEMENTS**

**FEBRUARY 29, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# VILLAGE OF MACKINAW CITY

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## INDEPENDENT AUDITORS' REPORT

August 29, 2008

Village Council  
Village of Mackinaw City  
Mackinaw City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Mackinaw City***, (the "Village"), as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I through IX is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the **Village of Mackinaw City**, (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 29, 2008.

### Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$14,869,442 (*net assets*). Of this amount, \$2,413,675 (*unrestricted net assets*) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$267,119.
- The Village repaid \$305,428 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$666,954, or 59% of total General Fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., compensated absences).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, highways and streets, health and welfare, and recreation and culture. The business-type activities of the Village include water and sewer and marina.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also the Downtown Development Authority component unit, which is a legally separate entity for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 3-5 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Ambulance Fund, and 2000 and 2007 Special Assessment Bonds Funds which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 44-54 in this report.



The Village adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and all major special revenue funds budgets.

The basic governmental funds financial statements can be found on pages 6-14 of this report.

***Proprietary funds.*** The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water and sewer and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Marina Fund, both of which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 15-18 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-43 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 44-54 of this report.

### **Government-wide Financial Analysis - Primary Government**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$14,869,442 at the close of fiscal 2008.

A large portion of the Village's net assets (82%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, marina and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (17%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Village of Mackinaw City - Primary Government  
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>						
Cash and other assets	\$ 2,023,450	\$ 1,681,257	\$ 1,073,751	\$ 1,408,318	\$ 3,097,201	\$ 3,089,575
Capital assets, net of accumulated depreciation, where applicable	<u>6,449,445</u>	<u>6,312,749</u>	<u>7,394,831</u>	<u>6,919,062</u>	<u>13,844,276</u>	<u>13,231,811</u>
<b>Total assets</b>	<b><u>8,472,895</u></b>	<b><u>7,994,006</u></b>	<b><u>8,468,582</u></b>	<b><u>8,327,380</u></b>	<b><u>16,941,477</u></b>	<b><u>16,321,386</u></b>
<b>Liabilities</b>						
Current and other liabilities	368,971	286,625	95,995	134,279	464,966	420,904
Long-term debt, net of current portion	<u>1,362,069</u>	<u>1,038,159</u>	<u>245,000</u>	<u>260,000</u>	<u>1,607,069</u>	<u>1,298,159</u>
<b>Total liabilities</b>	<b><u>1,731,040</u></b>	<b><u>1,324,784</u></b>	<b><u>340,995</u></b>	<b><u>394,279</u></b>	<b><u>2,072,035</u></b>	<b><u>1,719,063</u></b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	5,069,442	5,278,510	7,134,831	6,594,062	12,204,273	11,872,572
Restricted	121,601	119,297	129,893	126,088	251,494	245,385
Unrestricted	<u>1,550,812</u>	<u>1,271,415</u>	<u>862,863</u>	<u>1,212,951</u>	<u>2,413,675</u>	<u>2,484,366</u>
<b>Total net assets</b>	<b><u>\$ 6,741,855</u></b>	<b><u>\$ 6,669,222</u></b>	<b><u>\$ 8,127,587</u></b>	<b><u>\$ 7,933,101</u></b>	<b><u>\$14,869,442</u></b>	<b><u>\$14,602,323</u></b>

At the end of fiscal 2008, the Village is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net assets increased by \$267,119 during fiscal 2008. This increase is mainly attributable to increased property values and the Village's goal of retaining net assets for future infrastructure projects.

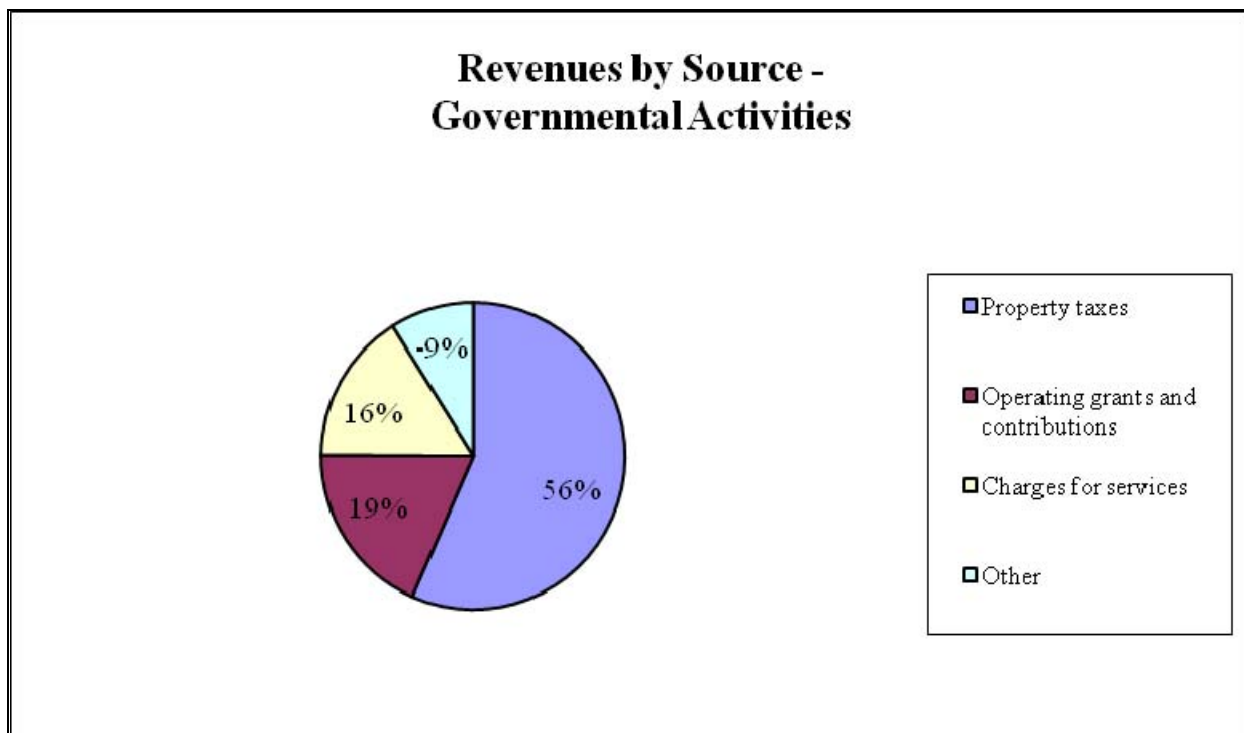
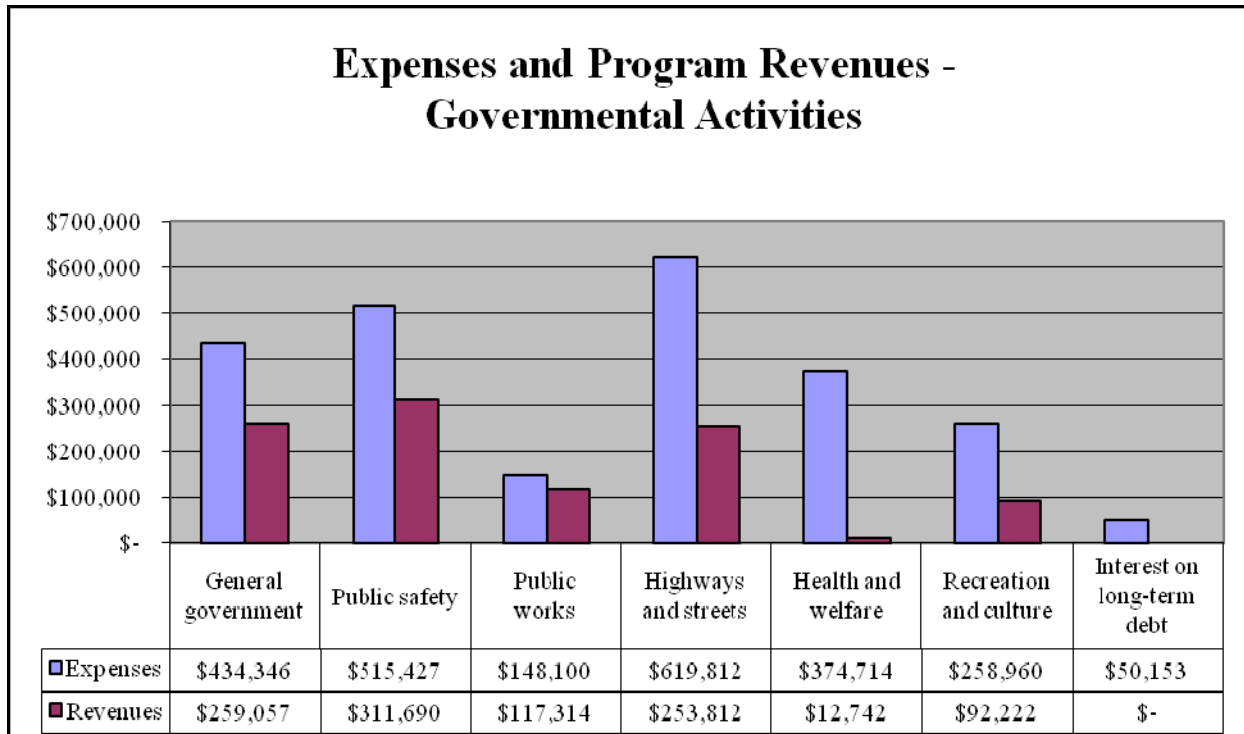
**Village of Mackinaw City - Primary Government**  
**Condensed Statement of Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 481,008	\$ 386,809	\$ 1,136,555	\$ 1,186,048	\$ 1,617,563	\$ 1,572,857
Operating grants and contributions	559,334	549,726	18,477	36,359	577,811	586,085
Capital grants and contributions	6,495	19,636	-	10,318	6,495	29,954
General revenues						
Property taxes	1,700,835	1,629,954	-	-	1,700,835	1,629,954
Grants and contributions not restricted to specific programs	20,874	32,459	-	-	20,874	32,459
Unrestricted interest income	42,567	18,638	-	-	42,567	18,638
<b>Total revenues</b>	<b><u>2,811,113</u></b>	<b><u>2,637,222</u></b>	<b><u>1,155,032</u></b>	<b><u>1,232,725</u></b>	<b><u>3,966,145</u></b>	<b><u>3,869,947</u></b>
<b>Expenses</b>						
General government	434,346	566,096	-	-	434,346	566,096
Public safety	515,427	599,728	-	-	515,427	599,728
Public works	148,100	219,981	-	-	148,100	219,981
Highways and streets	619,812	398,149	-	-	619,812	398,149
Health and welfare	374,714	312,437	-	-	374,714	312,437
Recreation and culture	258,960	276,209	-	-	258,960	276,209
Interest on long-term debt	50,153	50,003	-	-	50,153	50,003
Water and sewer	-	-	813,457	827,569	813,457	827,569
Marina	-	-	484,057	462,077	484,057	462,077
<b>Total expenses</b>	<b><u>2,401,512</u></b>	<b><u>2,422,603</u></b>	<b><u>1,297,514</u></b>	<b><u>1,289,646</u></b>	<b><u>3,699,026</u></b>	<b><u>3,712,249</u></b>
Increase (decrease) in net assets before transfers	409,601	214,619	(142,482)	(56,921)	267,119	157,698
Transfers	(336,968)	16,394	336,968	(16,394)	-	-
<b>Changes in net assets</b>	<b>72,633</b>	<b>231,013</b>	<b>194,486</b>	<b>(73,315)</b>	<b>267,119</b>	<b>157,698</b>
Net assets – beginning of year	6,669,222	6,438,209	7,933,101	8,006,416	14,602,323	14,444,625
<b>Net assets – end of year</b>	<b><u>\$ 6,741,855</u></b>	<b><u>\$ 6,669,222</u></b>	<b><u>\$ 8,127,587</u></b>	<b><u>\$ 7,933,101</u></b>	<b><u>\$14,869,442</u></b>	<b><u>\$14,602,323</u></b>

**Governmental activities.** Governmental activities increased the Village's net assets by \$72,633.

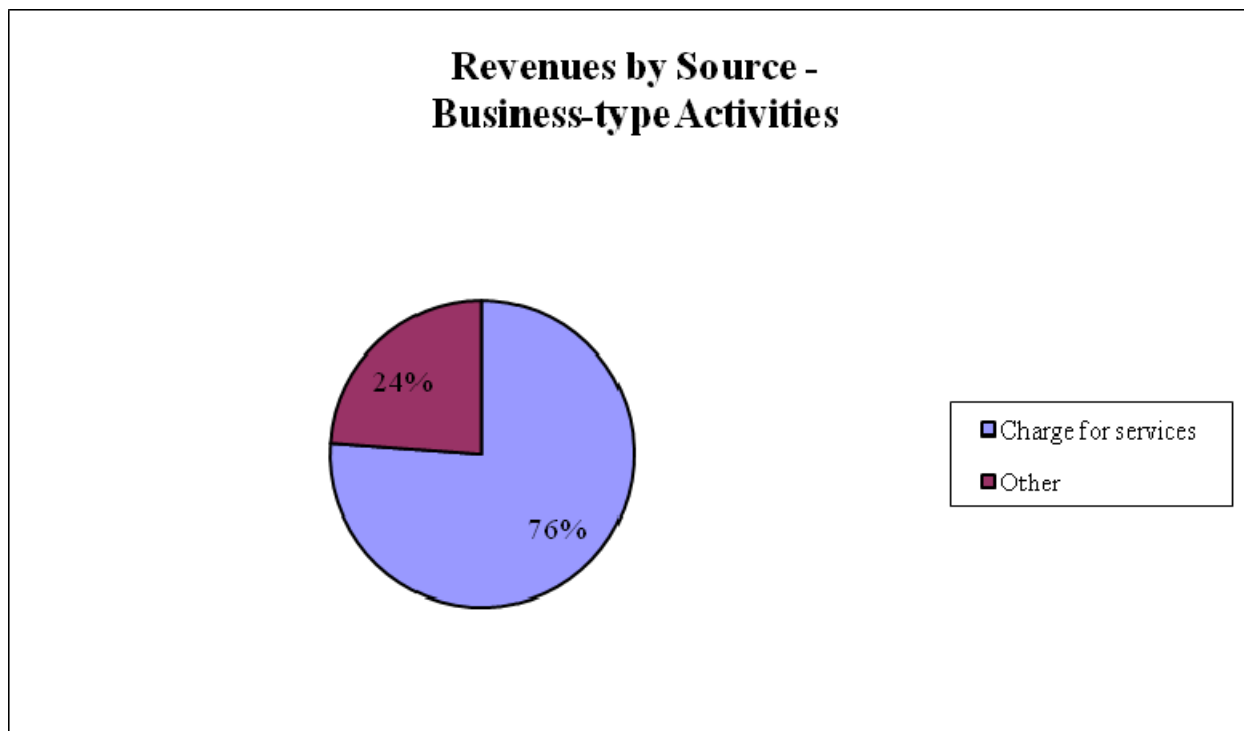
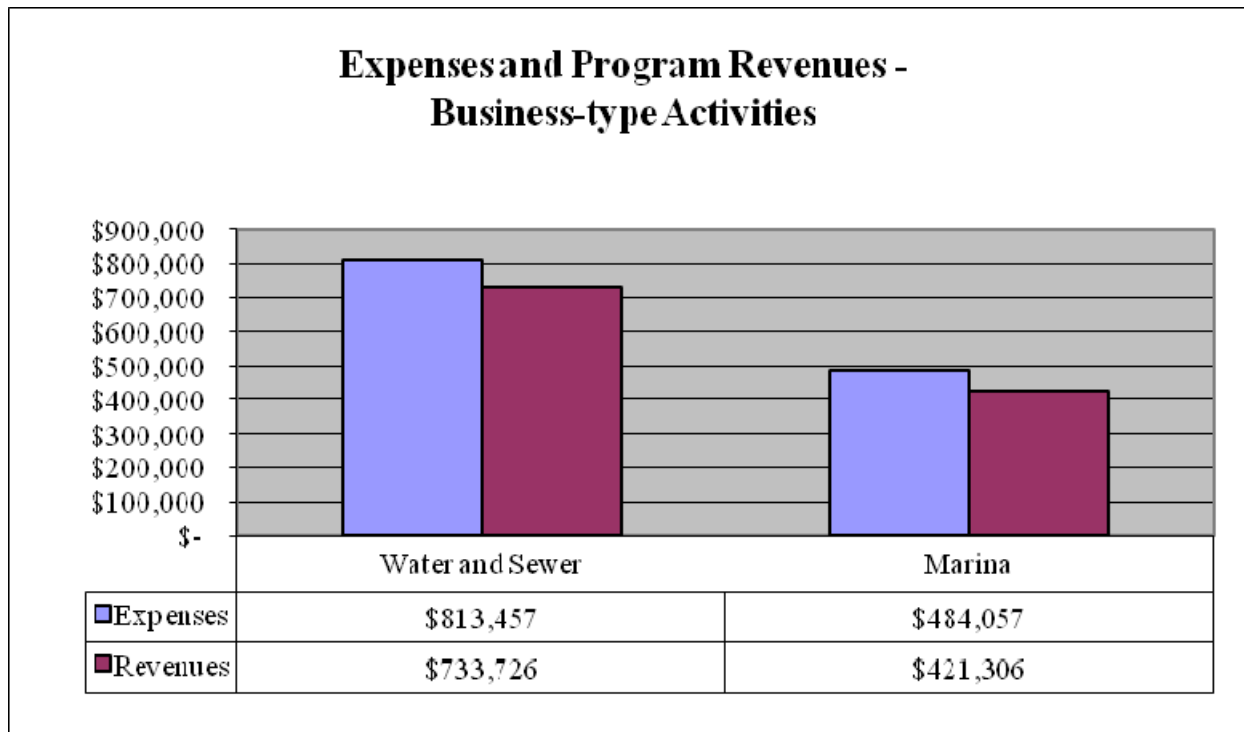
Key elements of this increase are as follows:

- Increase in transfers to allocate bond proceeds and the corresponding increase in highway and street expenditures resulting from the road projects.
- Increase in property tax.
- Retention of net assets for future infrastructure projects.



**Business-type activities.** Business-type activities increased the Village's net assets by \$194,486.

Key element of the current year increase was the transfer of bond proceeds from the capital improvement fund for the Wenniway Phase II Sewer Project.



Substantially all revenues for the business-type activities resulted from charges for services.

## Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year 2008, the Village's governmental funds reported combined ending fund balances of \$1,534,238, an increase of \$186,157. *Unreserved fund balance* of \$1,404,665 is available for spending at the Village's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The fund balance of the Village's General Fund increased by \$148,430 during the current fiscal year, which was mainly attributable to management of expenditures, mainly within the general government function.

There were no other significant changes to the fund balance of the other major governmental funds.

**Proprietary funds.** The Village's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$759,491. The Water and Sewer Fund had an increase in net assets for the year of \$257,237. Factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

Unrestricted net assets of the Marina Fund at the end of the year amounted to \$103,372. The Marina Fund had a decrease in net assets for the year of \$62,751. Revenues increased from fiscal 2007 by \$25,538 and expenses in fiscal 2008 were \$21,980 more than in fiscal 2007. The fiscal 2007 decrease in net assets of the Marina Fund was \$52,844.

## Budgetary Highlights

**General Fund Revenues and Expenditures.** General Fund revenues and expenditures were higher than the original budget. Budget amendments were completed to create a final amended budget resulting in revenues exceeding expenditures before transfers out. The largest variance of expenditures over budget was in the public safety function.

## Capital Asset and Debt Administration

**Capital assets.** The Village's investment in capital assets for its governmental and business-type activities as of February 29, 2008, amounted to \$13,844,276 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, marina, vehicles and equipment.

Additional information on the Village's capital assets can be found in note 3C on pages 31-33 of this report.

Major capital asset events during the current fiscal year included the following:

- Wenniway Phase II Sewer project
- Louvigny Street Project
- West Central Streetscape
- Public restroom and ambulance garage improvements
- Huron Street Sewer expansion
- Pond Street Sewer Project
- Finger piers at the Marina
- Ice Rink ceiling acoustical treatment

**Long-term debt.** At February 29, 2008, the Village had total debt outstanding of approximately \$1,640,000. Of this amount, approximately \$1,380,000 is comprised of debt backed by the full faith and credit of the Village. The remainder of the Village's bonded debt represents bonds secured solely by specified revenue sources.

Additional information on the Village's long-term debt can be found in Note 3F on pages 35-40 of this report.

### **Economic Factors and Fiscal 2008-2009 Budgets and Rates**

The following factors were considered in preparing the Village's budget for the 2008-09 fiscal year:

- Economic factors.
- Estimated revenues.
- Planned capital improvements.
- Operating expenditures.

### **Requests for Information**

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, PO Box 580, Mackinaw City, Michigan 49701.

## **BASIC FINANCIAL STATEMENTS**



## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# VILLAGE OF MACKINAW CITY

## STATEMENT OF NET ASSETS

FEBRUARY 29, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 777,430	\$ 374,752	\$ 1,152,182	\$ 19,336
Investments	531,197	300,097	831,294	15,496
Receivables, net	693,544	247,498	941,042	3,497
Internal balances	53,160	(53,160)	-	-
Inventories	-	19,763	19,763	-
Due to component unit	27	-	27	-
Internal advances	(54,908)	54,908	-	-
Restricted investments	23,000	129,893	152,893	-
Capital assets not being depreciated	856,079	74,087	930,166	-
Capital assets being depreciated, net	5,593,366	7,320,744	12,914,110	-
<b>Total assets</b>	<b>8,472,895</b>	<b>8,468,582</b>	<b>16,941,477</b>	<b>38,329</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	74,120	8,996	83,116	2,731
Unearned revenue	16,153	71,999	88,152	-
Due to primary government	-	-	-	27
Long-term liabilities				
Due within one year	278,698	15,000	293,698	-
Due in more than one year	1,362,069	245,000	1,607,069	-
<b>Total liabilities</b>	<b>1,731,040</b>	<b>340,995</b>	<b>2,072,035</b>	<b>2,758</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	5,069,442	7,134,831	12,204,273	-
Restricted for debt service	121,601	129,893	251,494	-
Unrestricted	1,550,812	862,863	2,413,675	35,571
<b>Total net assets</b>	<b>\$ 6,741,855</b>	<b>\$ 8,127,587</b>	<b>\$ 14,869,442</b>	<b>\$ 35,571</b>

The accompanying notes are an integral part of these basic financial statements.

# VILLAGE OF MACKINAW CITY

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 29, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities					
General government	\$ 434,346	\$ 168,178	\$ 90,879	\$ -	\$ (175,289)
Public safety	515,427	193,928	116,614	1,148	(203,737)
Public works	148,100	100,383	16,931	-	(30,786)
Highways and streets	619,812	695	247,770	5,347	(366,000)
Health and welfare	374,714	10,120	2,622	-	(361,972)
Recreation and culture	258,960	7,704	84,518	-	(166,738)
Interest on long-term debt	50,153	-	-	-	(50,153)
Total governmental activities	2,401,512	481,008	559,334	6,495	(1,354,675)
Business-type activities					
Water and sewer	813,457	717,424	16,302	-	(79,731)
Marina	484,057	419,131	2,175	-	(62,751)
Total business-type activities	1,297,514	1,136,555	18,477	-	(142,482)
<b>Total primary government</b>	<b>\$ 3,699,026</b>	<b>\$ 1,617,563</b>	<b>\$ 577,811</b>	<b>\$ 6,495</b>	<b>\$ (1,497,157)</b>
<b>Discretely presented component unit</b>					
Downtown development	\$ 22,910	\$ -	\$ -	\$ -	\$ (22,910)

# VILLAGE OF MACKINAW CITY

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 29, 2008

Functions/Programs	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (1,354,675)	\$ (142,482)	\$ (1,497,157)	\$ (22,910)
General revenues				
Property taxes	1,700,835	-	1,700,835	34,573
Grants and contributions not restricted to specific programs	20,874	-	20,874	-
Unrestricted interest income	42,567	-	42,567	63
Transfers - internal activities	(336,968)	336,968	-	-
Total general revenues and transfers	1,427,308	336,968	1,764,276	34,636
<b>Changes in net assets</b>	<b>72,633</b>	<b>194,486</b>	<b>267,119</b>	<b>11,726</b>
Net assets, beginning of year	6,669,222	7,933,101	14,602,323	23,845
<b>Net assets, end of year</b>	<b><u>\$ 6,741,855</u></b>	<b><u>\$ 8,127,587</u></b>	<b><u>\$ 14,869,442</u></b>	<b><u>\$ 35,571</u></b>

Concluded

The accompanying notes are an integral part of these basic financial statements.

## **FUND FINANCIAL STATEMENTS**

# VILLAGE OF MACKINAW CITY

## BALANCE SHEET GOVERNMENTAL FUNDS

FEBRUARY 29, 2008

	General	Major Street	Local Street	Municipal Street	Ambulance
<b>ASSETS</b>					
Cash and cash equivalents	\$ 294,111	\$ 7,403	\$ 8,969	\$ 170,407	\$ 24,368
Investments	222,915	5,933	7,188	136,567	19,489
Accounts receivable, net	18,683	-	-	-	55,259
Taxes receivable	154,060	-	-	89,745	-
Special assessments receivable	-	-	-	200,233	-
Due from other funds	101,698	-	-	-	-
Due from other governmental units	-	13,855	6,998	-	-
Advance to component unit	27	-	-	-	-
Restricted investments	-	-	-	-	-
<b>Total assets</b>	<b>\$ 791,494</b>	<b>\$ 27,191</b>	<b>\$ 23,155</b>	<b>\$ 596,952</b>	<b>\$ 99,116</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 54,871	\$ -	\$ 180	\$ -	\$ -
Due to other funds	-	11,344	7,568	-	18,030
Deferred revenue	14,761	-	-	201,625	-
Advance from other fund	54,908	-	-	-	-
<b>Total liabilities</b>	<b>124,540</b>	<b>11,344</b>	<b>7,748</b>	<b>201,625</b>	<b>18,030</b>
<b>Fund balances</b>					
Reserved for					
Recreation facilities	-	-	-	-	-
Debt service	-	-	-	-	-
Unreserved					
Designated - Special Revenue Funds					
Accrued sick and vacation	-	-	-	-	-
Undesignated	666,954	15,847	15,407	395,327	81,086
Undesignated, reported in nonmajor					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
<b>Total fund balances</b>	<b>666,954</b>	<b>15,847</b>	<b>15,407</b>	<b>395,327</b>	<b>81,086</b>
<b>Total liabilities and fund balances</b>	<b>\$ 791,494</b>	<b>\$ 27,191</b>	<b>\$ 23,155</b>	<b>\$ 596,952</b>	<b>\$ 99,116</b>

<b>2000 Special Assessment Bonds</b>	<b>2007 Special Assessment Bonds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 12,138	\$ 19,803	\$ 201,229	\$ 738,428
-	-	107,848	499,940
-	-	-	73,942
-	-	3,538	247,343
48,002	83,619	19,552	351,406
-	-	-	101,698
-	-	-	20,853
-	-	-	27
-	-	23,000	23,000
<b>\$ 60,140</b>	<b>\$ 103,422</b>	<b>\$ 355,167</b>	<b>\$ 2,056,637</b>

\$ -	\$ -	\$ 2,217	\$ 57,268
-	-	5,722	42,664
48,002	83,619	19,552	367,559
-	-	-	54,908
<b>48,002</b>	<b>83,619</b>	<b>27,491</b>	<b>522,399</b>

-	-	7,972	7,972
12,138	19,803	89,660	121,601
-	-	75,261	75,261
-	-	-	1,174,621
-	-	153,830	153,830
-	-	953	953
<b>12,138</b>	<b>19,803</b>	<b>327,676</b>	<b>1,534,238</b>
<b>\$ 60,140</b>	<b>\$ 103,422</b>	<b>\$ 355,167</b>	<b>\$ 2,056,637</b>

Continued...

# VILLAGE OF MACKINAW CITY

## BALANCE SHEET GOVERNMENTAL FUNDS

FEBRUARY 29, 2008

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### Reconciliation of fund balances on the balance sheet for governmental activities to the statement of net assets

Fund balances - total governmental funds \$ 1,534,238

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add: capital assets	8,783,593
Deduct: accumulated depreciation	(2,688,627)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessment revenues and other deferred revenues	351,405
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in an internal service fund	418,865
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Deduct: bonds and notes payable	(1,380,003)
Deduct compensated absences	(260,764)
Deduct: accrued interest on long-term liabilities	(16,852)

<b>Net assets of governmental activities</b>	<b><u>\$ 6,741,855</u></b>
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Concluded

The accompanying notes are an integral part of these basic financial statements.



**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>General</b>	<b>Major Street</b>	<b>Local Street</b>	<b>Municipal Street</b>	<b>Ambulance</b>
<b>Revenues</b>					
Property taxes	\$ 1,220,088	\$ -	\$ -	\$ 447,901	\$ -
State revenue	79,746	91,372	50,199	5,347	-
Federal revenue	-	-	70,000	-	-
Special assessments	-	-	-	6,480	-
Licenses and permits	16,105	-	-	-	-
Contributions	23,107	-	-	-	109,058
Charges for services	910	-	695	-	190,597
Fines and forfeits	2,931	-	-	-	-
Interest	42,844	23	178	3,841	1,600
Rents	136,578	-	-	-	-
Local contribution	-	-	-	-	-
Miscellaneous	6,058	-	32,157	-	856
<b>Total revenues</b>	<b>1,528,367</b>	<b>91,395</b>	<b>153,229</b>	<b>463,569</b>	<b>302,111</b>
<b>Expenditures</b>					
Current					
Legislative	31,896	-	-	-	-
General government	491,817	-	-	-	-
Public safety	558,073	-	-	-	-
Highways and streets	-	562,353	329,418	42,534	-
Health and welfare	-	-	-	-	302,209
Recreation and culture	44,533	-	-	-	-
Other functions	7,402	-	-	-	-
Capital outlay	-	-	-	-	6,284
Debt service					
Principal	-	-	-	-	-
Interest and paying agent fees	-	-	-	-	-
<b>Total expenditures</b>	<b>1,133,721</b>	<b>562,353</b>	<b>329,418</b>	<b>42,534</b>	<b>308,493</b>
<b>Revenues over (under) expenditures</b>	<b>394,646</b>	<b>(470,958)</b>	<b>(176,189)</b>	<b>421,035</b>	<b>(6,382)</b>
<b>Other financial sources (uses)</b>					
Bond proceeds	-	-	-	-	-
Transfers in	-	477,925	186,000	-	-
Transfers out	(246,216)	-	-	(433,500)	-
<b>Total other financing sources (uses)</b>	<b>(246,216)</b>	<b>477,925</b>	<b>186,000</b>	<b>(433,500)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>148,430</b>	<b>6,967</b>	<b>9,811</b>	<b>(12,465)</b>	<b>(6,382)</b>
Fund balances, beginning of year	518,524	8,880	5,596	407,792	87,468
<b>Fund balances, end of year</b>	<b>\$ 666,954</b>	<b>\$ 15,847</b>	<b>\$ 15,407</b>	<b>\$ 395,327</b>	<b>\$ 81,086</b>

<b>2000 Special Assessment Bonds</b>	<b>2007 Special Assessment Bonds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 32,846	\$ 1,700,835
-	-	-	226,664
-	-	-	70,000
21,230	18,417	17,206	63,333
-	-	-	16,105
-	-	32,150	164,315
-	-	21,174	213,376
-	-	-	2,931
4,498	2,858	12,159	68,001
-	-	49,680	186,258
-	-	22,783	22,783
-	-	165	39,236
<b>25,728</b>	<b>21,275</b>	<b>188,163</b>	<b>2,773,837</b>
-	-	-	31,896
-	-	38,366	530,183
-	-	-	558,073
-	-	-	934,305
-	-	-	302,209
-	-	106,631	151,164
-	-	34,702	42,104
-	-	13,760	20,044
30,000	-	208,605	238,605
3,643	3,775	36,209	43,627
<b>33,643</b>	<b>3,775</b>	<b>438,273</b>	<b>2,852,210</b>
<b>(7,915)</b>	<b>17,500</b>	<b>(250,110)</b>	<b>(78,373)</b>
-	-	585,000	585,000
-	2,303	302,595	968,823
-	-	(609,577)	(1,289,293)
<b>-</b>	<b>2,303</b>	<b>278,018</b>	<b>264,530</b>
<b>(7,915)</b>	<b>19,803</b>	<b>27,908</b>	<b>186,157</b>
20,053	-	299,768	1,348,081
<b>\$ 12,138</b>	<b>\$ 19,803</b>	<b>\$ 327,676</b>	<b>\$ 1,534,238</b>

Continued...

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 29, 2008**

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**Reconciliation of the statement of revenues, expenditures and changes in fund balances  
of governmental funds to the statement of activities**

Net change in fund balances - total governmental funds \$ 186,157

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay capitalized during current year 550,509  
Deduct: depreciation expense (351,480)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: current year special assessments and other 351,406  
Deduct: prior year special assessments and other (314,360)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct: bond proceeds (585,000)  
Add: principal payments on long-term liabilities 239,236

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct: current year increase in accrued interest on bonds (6,526)  
Add: decrease in the accrual of compensated absences 1,192

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: change in net assets from governmental activities accounted for in internal service fund 1,499

**Change in net assets of governmental activities** **\$ 72,633**

Concluded

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 1,221,400	\$ 1,221,400	\$ 1,220,088	\$ (1,312)
State revenue	78,100	78,100	79,746	1,646
Licenses and permits	10,300	10,300	16,105	5,805
Contributions	17,600	17,600	23,107	5,507
Charges for services	1,380	1,380	910	(470)
Fines and forfeits	1,150	1,150	2,931	1,781
Interest	21,500	21,500	42,844	21,344
Rents	136,700	136,700	136,578	(122)
Miscellaneous	23,700	23,700	6,058	(17,642)
<b>Total revenues</b>	<b>1,511,830</b>	<b>1,511,830</b>	<b>1,528,367</b>	<b>16,537</b>
<b>Expenditures</b>				
Legislative	32,600	32,600	31,896	704
General government	563,795	563,795	491,817	71,978
Public safety	549,750	549,750	558,073	(8,323)
Recreation and culture	58,650	58,650	44,533	14,117
Other functions	8,700	8,700	7,402	1,298
<b>Total expenditures</b>	<b>1,213,495</b>	<b>1,213,495</b>	<b>1,133,721</b>	<b>79,774</b>
<b>Revenues over expenditures</b>	<b>298,335</b>	<b>298,335</b>	<b>394,646</b>	<b>96,311</b>
<b>Other financing sources (uses)</b>				
Transfers out	(298,335)	(298,335)	(246,216)	52,119
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>148,430</b>	<b>148,430</b>
Fund balance, beginning of year	518,524	518,524	518,524	-
<b>Fund balance, end of year</b>	<b>\$ 518,524</b>	<b>\$ 518,524</b>	<b>\$ 666,954</b>	<b>\$ 148,430</b>

The accompanying notes are an integral part of these basic financial statements.

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
State revenue				
Winter maintenance	\$ -	\$ -	\$ 14,237	\$ 14,237
Gas and weight tax distribution	68,000	68,000	77,135	9,135
Other	400	400	-	(400)
Interest	200	200	23	(177)
<b>Total revenues</b>	<b>68,600</b>	<b>68,600</b>	<b>91,395</b>	<b>22,795</b>
<b>Expenditures</b>				
Highways and streets				
Administration	26,600	26,600	24,232	2,368
Routine maintenance	95,550	95,550	116,454	(20,904)
Winter maintenance	44,500	44,500	94,320	(49,820)
Traffic services	19,500	19,500	12,854	6,646
Construction	422,000	422,000	314,493	107,507
<b>Total expenditures</b>	<b>608,150</b>	<b>608,150</b>	<b>562,353</b>	<b>45,797</b>
<b>Revenues under expenditures</b>	<b>(539,550)</b>	<b>(539,550)</b>	<b>(470,958)</b>	<b>68,592</b>
<b>Other financing sources</b>				
Transfers in	539,550	539,550	477,925	(61,625)
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>6,967</b>	<b>6,967</b>
Fund balance, beginning of year	8,880	8,880	8,880	-
<b>Fund balance, end of year</b>	<b>\$ 8,880</b>	<b>\$ 8,880</b>	<b>\$ 15,847</b>	<b>\$ 6,967</b>

The accompanying notes are an integral part of these basic financial statements.

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**LOCAL STREET FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Federal revenue	\$ 70,000	\$ 70,000	\$ 70,000	\$ -
Gas and weight tax distribution	33,000	33,000	50,199	17,199
Other	40,000	40,000	32,852	(7,148)
Interest	30	30	178	148
<b>Total revenues</b>	<b>143,030</b>	<b>143,030</b>	<b>153,229</b>	<b>10,199</b>
<b>Expenditures</b>				
Administration	26,450	26,450	23,169	3,281
Routine maintenance	82,450	82,450	78,321	4,129
Winter maintenance	43,300	43,300	90,049	(46,749)
Traffic services	7,000	7,000	408	6,592
Construction	133,000	133,000	137,471	(4,471)
<b>Total expenditures</b>	<b>292,200</b>	<b>292,200</b>	<b>329,418</b>	<b>(37,218)</b>
<b>Revenues under expenditures</b>	<b>(149,170)</b>	<b>(149,170)</b>	<b>(176,189)</b>	<b>(27,019)</b>
<b>Other financing sources</b>				
Transfers in	149,170	149,170	186,000	36,830
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>9,811</b>	<b>9,811</b>
Fund balance, beginning of year	5,596	5,596	5,596	-
<b>Fund balance, end of year</b>	<b>\$ 5,596</b>	<b>\$ 5,596</b>	<b>\$ 15,407</b>	<b>\$ 9,811</b>

The accompanying notes are an integral part of these basic financial statements.

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**MUNICIPAL STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 406,000	\$ 406,000	\$ 447,901	\$ 41,901
State revenue	-	-	5,347	5,347
Special assessments	12,300	12,300	6,480	(5,820)
Interest	3,000	3,000	3,841	841
<b>Total revenues</b>	<b>421,300</b>	<b>421,300</b>	<b>463,569</b>	<b>42,269</b>
<b>Expenditures</b>				
Highways and streets				
Routine maintenance	35,000	35,000	42,534	(7,534)
<b>Revenues over expenditures</b>	<b>386,300</b>	<b>386,300</b>	<b>421,035</b>	<b>34,735</b>
<b>Other financing sources (uses)</b>				
Transfers out	(438,720)	(438,720)	(433,500)	5,220
<b>Net change in fund balance</b>	<b>(52,420)</b>	<b>(52,420)</b>	<b>(12,465)</b>	<b>39,955</b>
Fund balance, beginning of year	407,792	407,792	407,792	-
<b>Fund balance, end of year</b>	<b>\$ 355,372</b>	<b>\$ 355,372</b>	<b>\$ 395,327</b>	<b>\$ 39,955</b>

The accompanying notes are an integral part of these basic financial statements.

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**AMBULANCE FUND**  
**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Amended Budget Positive (Negative)</b>
<b>Revenues</b>				
Contributions from other governmental units	\$ 97,800	\$ 97,800	\$ 109,058	\$ 11,258
Charges for services	153,300	153,300	190,597	37,297
Interest	420	420	1,600	1,180
Miscellaneous	550	550	856	306
<b>Total revenues</b>	<b>252,070</b>	<b>252,070</b>	<b>302,111</b>	<b>50,041</b>
<b>Expenditures</b>				
Health and welfare	248,570	248,570	302,209	(53,639)
Capital outlay	3,500	3,500	6,284	(2,784)
<b>Total expenditures</b>	<b>252,070</b>	<b>252,070</b>	<b>308,493</b>	<b>(56,423)</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>(6,382)</b>	<b>(6,382)</b>
Fund balance, beginning of year	87,468	87,468	87,468	-
<b>Fund balance, end of year</b>	<b>\$ 87,468</b>	<b>\$ 87,468</b>	<b>\$ 81,086</b>	<b>\$ (6,382)</b>

The accompanying notes are an integral part of these basic financial statements.



# VILLAGE OF MACKINAW CITY

## STATEMENT OF NET ASSETS PROPRIETARY FUNDS

FEBRUARY 29, 2008

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 295,772	\$ 78,980	\$ 374,752	\$ 39,002
Investments	237,037	63,060	300,097	31,257
Accounts receivable	217,905	29,593	247,498	-
Inventory	-	19,763	19,763	-
<b>Total current assets</b>	<b>750,714</b>	<b>191,396</b>	<b>942,110</b>	<b>70,259</b>
<b>Property and equipment</b>				
Land	52,587	21,500	74,087	-
Land improvements	-	113,358	113,358	-
Buildings	150,182	-	150,182	-
Water and sewer system	8,651,907	-	8,651,907	-
Machinery and equipment	358,901	83,917	442,818	901,744
Marina	-	1,657,671	1,657,671	-
Less accumulated depreciation	(2,622,061)	(1,073,131)	(3,695,192)	(547,264)
<b>Net property and equipment</b>	<b>6,591,516</b>	<b>803,315</b>	<b>7,394,831</b>	<b>354,480</b>
<b>Other assets</b>				
Restricted investments	129,893	-	129,893	-
Advance to other fund	54,908	-	54,908	-
<b>Total other assets</b>	<b>184,801</b>	<b>-</b>	<b>184,801</b>	<b>-</b>
<b>Total assets</b>	<b>7,527,031</b>	<b>994,711</b>	<b>8,521,742</b>	<b>424,739</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	8,626	370	8,996	-
Due to other funds	37,505	15,655	53,160	5,874
Unearned revenue	-	71,999	71,999	-
Bonds payable	15,000	-	15,000	-
<b>Total current liabilities</b>	<b>61,131</b>	<b>88,024</b>	<b>149,155</b>	<b>5,874</b>
<b>Long-term debt</b>				
Bonds payable (net of current portion)	245,000	-	245,000	-
<b>Total liabilities</b>	<b>306,131</b>	<b>88,024</b>	<b>394,155</b>	<b>5,874</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	6,331,516	803,315	7,134,831	354,480
Restricted	129,893	-	129,893	-
Unrestricted	759,491	103,372	862,863	64,385
<b>Total net assets</b>	<b>\$ 7,220,900</b>	<b>\$ 906,687</b>	<b>\$ 8,127,587</b>	<b>\$ 418,865</b>

The accompanying notes are an integral part of these basic financial statements.

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Operating revenues</b>				
Sales and charges for services	\$ -	\$ 419,131	\$ 419,131	\$ 251,248
Sales and charges for services pledged as security for revenue bonds	717,424	-	717,424	-
<b>Total operating revenues</b>	<b>717,424</b>	<b>419,131</b>	<b>1,136,555</b>	<b>251,248</b>
<b>Operating expenses</b>				
Salaries and wages	159,292	119,042	278,334	38,885
Fringe benefits	125,577	51,420	176,997	21,486
Supplies	105,035	23,964	128,999	7,315
Gasoline and oil	7,650	141,489	149,139	39,128
Repairs and maintenance	26,928	8,406	35,334	42,776
Contracted services	69,249	15,606	84,855	3,707
Communications	4,547	2,752	7,299	1,031
Conferences and workshops	878	-	878	80
Travel	535	-	535	27
Insurance	11,018	10,075	21,093	9,496
Utilities	102,645	30,800	133,445	7,159
Equipment rental	7,436	708	8,144	-
Depreciation	169,725	55,554	225,279	62,332
Miscellaneous	4,650	24,241	28,891	55
<b>Total operating expenses</b>	<b>795,165</b>	<b>484,057</b>	<b>1,279,222</b>	<b>233,477</b>
<b>Operating (loss) income</b>	<b>(77,741)</b>	<b>(64,926)</b>	<b>(142,667)</b>	<b>17,771</b>
<b>Non-operating revenues (expenses)</b>				
Interest earnings	16,302	2,175	18,477	226
Interest and fiscal charges	(18,292)	-	(18,292)	-
<b>Total non-operating revenues (expenses)</b>	<b>(1,990)</b>	<b>2,175</b>	<b>185</b>	<b>226</b>
<b>(Loss) income before transfers</b>	<b>(79,731)</b>	<b>(62,751)</b>	<b>(142,482)</b>	<b>17,997</b>
Transfers in	355,665	-	355,665	-
Transfers out	(18,697)	-	(18,697)	(16,498)
<b>Change in net assets</b>	<b>257,237</b>	<b>(62,751)</b>	<b>194,486</b>	<b>1,499</b>
Net assets, beginning of year	6,963,663	969,438	7,933,101	417,366
<b>Net assets, end of year</b>	<b>\$ 7,220,900</b>	<b>\$ 906,687</b>	<b>\$ 8,127,587</b>	<b>\$ 418,865</b>

The accompanying notes are an integral part of these basic financial statements.

# VILLAGE OF MACKINAW CITY

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Cash flows from operating activities</b>				
Cash collected from customers	\$ 712,834	\$ 425,425	\$ 1,138,259	\$ 251,248
Cash paid for employee wages and benefits	(265,629)	(163,841)	(429,470)	(57,604)
Cash paid for other operating and administrative expenses	(338,021)	(248,875)	(586,896)	(110,774)
<b>Net cash provided by operating activities</b>	<b>109,184</b>	<b>12,709</b>	<b>121,893</b>	<b>82,870</b>
<b>Cash flows from capital and related financing activities</b>				
Interest payments	(18,292)	-	(18,292)	-
Principal payments	(65,000)	-	(65,000)	-
Purchase of property and equipment	(685,326)	(15,722)	(701,048)	-
Transfer in	355,665	-	355,665	-
Transfer out	(18,697)	-	(18,697)	(16,498)
<b>Net cash used in capital and related financing activities</b>	<b>(431,650)</b>	<b>(15,722)</b>	<b>(447,372)</b>	<b>(16,498)</b>
<b>Cash flows from investing activities</b>				
Interest earnings	16,302	2,175	18,477	226
Sale (purchase) of investments	195,416	10,747	206,163	(29,362)
<b>Cash provided (used) in investing activities</b>	<b>211,718</b>	<b>12,922</b>	<b>224,640</b>	<b>(29,136)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(110,748)</b>	<b>9,909</b>	<b>(100,839)</b>	<b>37,236</b>
Cash and cash equivalents, beginning of year	406,520	69,071	475,591	1,766
<b>Cash and cash equivalents, end of year</b>	<b>\$ 295,772</b>	<b>\$ 78,980</b>	<b>\$ 374,752</b>	<b>\$ 39,002</b>

The accompanying notes are an integral part of these basic financial statements.

# VILLAGE OF MACKINAW CITY

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
<b>Reconciliation of operating (loss) income to net cash provided by operating activities</b>				
<b>Cash flows from operating activities</b>				
Operating (loss) income	\$ (77,741)	\$ (64,926)	\$ (142,667)	\$ 17,771
Adjustments to reconcile operating (loss) income to net cash provided by operating activities				
Depreciation	169,725	55,554	225,279	62,332
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(4,590)	6,294	1,704	-
Accounts payable	2,550	370	2,920	-
Due to other funds	19,240	6,621	25,861	2,767
Deferred revenue	-	8,796	8,796	-
<b>Net cash provided by operating activities</b>	<b>\$ 109,184</b>	<b>\$ 12,709</b>	<b>\$ 121,893</b>	<b>\$ 82,870</b>

Concluded

The accompanying notes are an integral part of these basic financial statements.

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

**FEBRUARY 29, 2008**

	<u>Pension Trust Fund Employees' Retirement System</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$       -	\$       4,975
Investments	<u>1,241,901</u>	<u>-</u>
<b>Total assets</b>	<b>1,241,901</b>	<b><u><u>4,975</u></u></b>
<b>Liabilities</b>		
Accounts payable	<u>-</u>	<b><u><u>\$       4,975</u></u></b>
<b>Net assets</b>		
Held in trust for pension benefits	<b><u><u>\$   1,241,901</u></u></b>	

The accompanying notes are an integral part of these basic financial statements.

**VILLAGE OF MACKINAW CITY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION TRUST FUND**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

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<b>Additions</b>	
Contributions	\$ 73,436
Investment income	<u>147,823</u>
<b>Change in net assets</b>	<b>221,259</b>
Net assets held in trust for pension benefits, beginning of year	<u>1,020,642</u>
<b>Net assets held in trust for pension benefits, end of year</b>	<b><u>\$ 1,241,901</u></b>

The accompanying notes are an integral part of these basic financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the ***Village of Mackinaw City***, (the “Village”) and its component unit. The component unit discussed below is included in the Village’s reporting entity because of the significance of its operational or financial relationship with the Village.

***Discretely presented component unit.*** The amounts reported as the “discretely presented component unit” in the basic financial statements include the financial data of the Village’s Downtown Development Authority (“DDA”) to emphasize that it is legally separate from the Village. The members of the governing Board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Separate financial statements of the DDA have not been prepared.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.



# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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*Fund Financial Statements.* The fund financial statements provide information about the Village's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by state statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by state statute for local street purposes.

The *Municipal Street Fund* accounts for the use of a tax levy which is used to supplement the Major and Local Street Funds.

The *Ambulance Fund* accounts for the operations of the Village-operated ambulance service.

The *2000 Special Assessment Bonds Fund* accounts for the 2000 special assessment revenues and the payments on the bonds issued for street improvements.

The *2007 Special Assessment Bonds Fund* accounts for the 2007 special assessment revenues and the payments on the bonds issued for street improvements.

The Village reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the activities of the Village's water distribution, water treatment, sewage disposal and sewage treatment systems.

The *Marina Fund* accounts for the operations of the Village-owned marina.

Additionally, the Village reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Internal Service Fund* accounts for operations that provide machinery and equipment to other departments of the Village on a cost-reimbursement basis.

The *Pension Trust Fund* accounts for the activities of the Village's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

The *Agency Funds* account for assets held for other governments and employees in an agency capacity.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

*Governmental Fund Financial Statements.* Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when both measurable and available. The Village considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Village.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the Village follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### **D. Assets, liabilities and net assets or equity**

#### ***1. Deposits and investments***

The Village maintains an investment pool for all Village funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The debt service and trust and agency funds cash resources are invested separately as required by law.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The Village's investments during the year consisted of certificate of deposits with original maturities of more than three months and pension trust investments held with a life insurance company.

#### ***2. Receivables and payables***

All receivables are reported at their gross value, except the Ambulance Fund accounts receivable, which is shown net of an estimated allowance for uncollectible accounts of \$20,000.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

# **VILLAGE OF MACKINAW CITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **3. *Property taxes***

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the government and subject to acceptance by the counties, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Village for the 2007 levy was approximately \$109,400,000. The Village's general operating tax rate for fiscal 2007-08 was 11.0786 mills with an additional 3.8289 mills for streets and .3087 mills for the cemetery.

Property taxes for the DDA are derived from a 1.8056 mill tax levied on the properties located within the DDA district under the authority of Public Act 197 of 1975.

Property taxes are recognized in the fiscal year in which they are levied.

### **4. *Inventories***

All inventories are valued at cost using the first-in/first-out (FIFO) method of accounting.

### **5. *Restricted assets***

Certain resources are set aside for repayment of the Village's Water and Sewer and Recreation revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

### **6. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, water and wastewater system and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Village defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Buildings and building improvements	15-40
Water and wastewater system infrastructure	20-75
Machinery and equipment	5-25
Marina	7-40
Infrastructure	20

### **7. *Compensated absences***

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### **8. *Long-term obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

### **9. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Thursday in February of each year, the Village Manager must present the proposed budget to the Village Council for review. The Council holds public hearings and a final budget must be prepared and adopted by resolution no later than the first day in March.

The budget document presents information by fund, function, department and line item. The legal level of budgetary control adopted by the Village Council is the function level which is the level at which expenditures may not exceed appropriations. The Village Manager may make transfers of appropriations within a function. Transfers of appropriations between functions require the approval of the Village Council.

Expenditures in excess of budget are as follows:

	<b><u>Final Amended Budget</u></b>	<b><u>Actual</u></b>	<b><u>Negative Variance</u></b>
<b><u>General Fund</u></b>			
Public safety	\$ 549,750	\$ 558,073	\$ 8,323
<b><u>Special Revenue Funds</u></b>			
Local Street Fund			
Highway and street	292,200	329,418	37,218
Municipal Street Fund			
Highway and street	35,000	42,534	7,534
Ambulance Fund			
Health and welfare	248,570	302,209	53,639
Capital outlay	3,500	6,284	2,784

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### 3. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

*Summary of deposit and investment balances.* Following is a reconciliation of deposit and investment balances as of February 29, 2008:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
<b>Statement of Net Assets</b>			
Cash and cash equivalents	\$ 1,152,182	\$ 19,336	\$ 1,171,518
Investments	831,294	15,496	846,790
Restricted investments	<u>152,893</u>	<u>-</u>	<u>152,893</u>
<b>Total Statement of Net Assets</b>	<b><u>\$ 2,136,369</u></b>	<b><u>\$ 34,832</u></b>	2,171,201
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents			4,975
Investments			<u>1,241,901</u>
<b>Total</b>			<b><u>\$ 3,418,077</u></b>

The composition of deposits and investments for footnote disclosure is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,176,176
Investments in securities, mutual funds and similar vehicles	<u>1,241,901</u>
<b>Total</b>	<b><u>\$ 3,418,077</u></b>

#### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments included in the Statement of Fiduciary Net Assets do not have specific maturity dates.

*Credit Risk.* The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The Village has no investments for which ratings are required.



# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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*Custodial Credit Risk Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$1,664,062 of the Village's bank balance of \$2,202,855 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Village is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Village Council is authorized to designate depositories for Village funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority. The Village's deposits are in accordance with statutory authority.

*Custodial Credit Risk Investments.* The Village's Pension Trust Fund holds securities of \$1,241,901 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investment is stated at fair value.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### B. Receivables

The composition of receivables is as follows as of February 29, 2008:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 93,942	\$ 247,498	\$ -
Taxes receivable	247,343	-	3,497
Special assessment receivable, due in one year	61,000	-	-
Special assessment receivable, due in more than one year	290,406	-	-
Due from other governmental units	<u>20,853</u>	<u>-</u>	<u>-</u>
Total receivables	713,544	247,498	3,497
Less: allowance for doubtful accounts	<u>20,000</u>	<u>-</u>	<u>-</u>
<b>Total receivables, net</b>	<b><u>\$ 693,544</u></b>	<b><u>\$ 247,498</u></b>	<b><u>\$ 3,497</u></b>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$367,559.

### C. Capital assets

Capital assets activity was as follows for the year ended February 29, 2008:

#### Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 856,079	\$ -	\$ -	\$ 856,079
Construction in process	<u>41,489</u>	<u>-</u>	<u>(41,489)</u>	<u>-</u>
Total capital assets not being depreciated	<u>897,568</u>	<u>-</u>	<u>(41,489)</u>	<u>856,079</u>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Buildings	\$2,186,743	\$ 35,028	\$ -	\$2,221,771
Land improvements	853,925	71,905	-	925,830
Equipment	2,310,664	43,544	-	2,354,208
Infrastructure	<u>2,885,928</u>	<u>441,521</u>	<u>-</u>	<u>3,327,449</u>
Total capital assets being depreciated	<u>8,237,260</u>	<u>592,004</u>	<u>-</u>	<u>8,829,258</u>
Less accumulated depreciation on				
Buildings	(440,906)	(61,293)	-	(502,199)
Land improvements	(504,395)	(48,342)	-	(552,737)
Equipment	(1,125,304)	(153,323)	-	(1,278,627)
Infrastructure	<u>(751,474)</u>	<u>(150,855)</u>	<u>-</u>	<u>(902,329)</u>
Total accumulated depreciation	<u>(2,822,079)</u>	<u>(413,813)</u>	<u>-</u>	<u>(3,235,892)</u>
Total capital assets being depreciated, net	<u>5,415,181</u>	<u>178,185</u>	<u>-</u>	<u>5,593,366</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$6,312,749</u></b>	<b><u>\$ 178,185</u></b>	<b><u>\$ (41,489)</u></b>	<b><u>\$6,449,445</u></b>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 74,087	\$ -	\$ -	\$ 74,087
Construction in process	<u>5,832</u>	<u>-</u>	<u>(5,832)</u>	<u>-</u>
Total capital assets not being depreciated	<u>79,919</u>	<u>-</u>	<u>(5,832)</u>	<u>74,087</u>
Capital assets being depreciated				
Buildings	135,962	14,220	-	150,182
Improvements other than buildings	8,119,768	645,497	-	8,765,265
Machinery and equipment	411,379	31,439	-	442,818
Marina	<u>1,641,949</u>	<u>15,722</u>	<u>-</u>	<u>1,657,671</u>
Total capital assets being depreciated	<u>10,309,058</u>	<u>706,878</u>	<u>-</u>	<u>11,015,936</u>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Buildings	\$ (26,526)	\$ (4,478)	\$ -	\$ (31,004)
Improvements other than buildings	(2,312,128)	(139,411)	-	(2,451,539)
Machinery and equipment	(261,195)	(34,828)	-	(296,023)
Marina	<u>(870,066)</u>	<u>(46,560)</u>	<u>-</u>	<u>(916,626)</u>
Total accumulated depreciation	<u>(3,469,915)</u>	<u>(225,277)</u>	<u>-</u>	<u>(3,695,192)</u>
Total capital assets being depreciated, net	<u>6,839,143</u>	<u>481,601</u>	<u>-</u>	<u>7,320,744</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$6,919,062</u></b>	<b><u>\$ 481,601</u></b>	<b><u>\$ (5,832)</u></b>	<b><u>\$7,394,831</u></b>

Depreciation expense was charged to functions/programs of the primary government as follows:

### Governmental activities

General government	\$ 19,954
Public safety	58,768
Public works	8,593
Highways and streets	150,680
Health and welfare	10,838
Recreation and culture	102,646
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>62,332</u>

**Total depreciation expense – governmental activities** **\$ 413,811**

### Business-type activities

Water and Sewer	\$ 178,717
Marina	<u>46,560</u>

**Total depreciation expense – business-type activities** **\$ 225,277**

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows at February 29, 2008:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit Activities</u>
Accounts payable	\$ 57,268	\$ 8,996	\$ 2,731
Accrued expenses	<u>16,852</u>	<u>-</u>	<u>-</u>
<b>Total accounts payables and accrued expenses</b>	<b><u>\$ 74,120</u></b>	<b><u>\$ 8,996</u></b>	<b><u>\$ 2,731</u></b>

### E. Interfund receivables, payables and transfers

The Water and Sewer Enterprise Fund advanced \$258,355 to the General Fund during the year ended February 28, 2003 for the purpose of assisting the Recreation Center Fund in construction of the ice rink facility. The advance is to be repaid over five years with interest charged at 4.28%. At February 29, 2008, the outstanding balance of this advance was \$54,908.

The General Fund has a balance due from the DDA Component Unit for fringe benefits incurred during the year ended February 29, 2008 in the amount of \$27.

The composition of interfund balances is as follows:

<u>Due from</u>	<u>Due to General Fund</u>
Major Street Fund	\$ 11,344
Local Street Fund	7,568
Ambulance Fund	18,030
Nonmajor governmental funds	5,722
Water and Sewer Fund	37,505
Marina Fund	15,655
Internal service fund	<u>5,874</u>
<b>Total</b>	<b><u>\$ 101,698</u></b>

Interfund receivables and payables are established to cover fringe benefit allocations.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

Interfund transfers consisted of the following for the year ended February 29, 2008:

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total Transfers</u>
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water and Sewer Fund</u>	
General Fund	\$ -	\$ -	\$ 246,216	\$ -	\$ 246,216
Municipal Street Fund	247,500	186,000	-	-	433,500
Water and Sewer Fund	-	-	18,697	-	18,697
Internal Service Fund	-	-	16,498	-	16,498
Nonmajor governmental funds	<u>230,425</u>	<u>-</u>	<u>23,487</u>	<u>355,665</u>	<u>609,577</u>
<b>Total transfers</b>	<b><u>\$ 477,925</u></b>	<b><u>\$ 186,000</u></b>	<b><u>\$ 304,898</u></b>	<b><u>\$ 355,665</u></b>	<b><u>\$1,324,488</u></b>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended February 29, 2008:

	<u>Balance March 1, 2007</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 29, 2008</u>	<u>Due Within 1 Year</u>
<b>Governmental activities</b>					
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	\$ 118,262	\$ -	\$ (11,796)	\$ 106,466	\$ 12,297

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2007</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 29, 2008</u>	<u>Due Within 1 Year</u>
2004 Capital Improvement Bonds maturing serially through fiscal 2015 in annual payments ranging from \$30,000 to \$40,000 and bearing interest at 3.375%.	\$ 290,000	\$ -	\$ (30,000)	\$ 260,000	\$ 35,000
2002 Capital Improvement Bonds maturing serially through fiscal 2013 in annual payments ranging from \$30,000 to \$35,000 and bearing interest from 3.0% to 4.1%.	195,000	-	(30,000)	165,000	30,000
2000 Special Assessment Limited Tax Bonds maturing serially through fiscal 2010 in annual payments ranging from \$20,000 to \$30,000 and bearing interest from 5.55% to 5.65%.	80,000	-	(30,000)	50,000	30,000
1997 Act 99 installment contract, repaid in August 2007.	16,804	-	(16,804)	-	-

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2007</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 29, 2008</u>	<u>Due Within 1 Year</u>
1998 Act 99 installment contract maturing in fiscal 2009 in semi-annual payments of \$16,798 including interest at 2.89%.	\$ 59,978	\$ -	\$ (32,094)	\$ 27,884	\$ 27,884
2000 Revenue Bonds maturing serially through fiscal 2011 in annual payments ranging from \$20,000 to \$25,000 and bearing interest from 5.60% to 5.75%.	95,000	-	(20,000)	75,000	25,000
2000 General Obligation Limited Tax Bonds maturing serially through fiscal 2010 in annual payments of \$25,000 and bearing interest from 5.55% to 5.65%.	75,000	-	(25,000)	50,000	25,000
1999 Act 99 installment contract maturing in fiscal 2010 in semi-annual payments of \$12,397 including interest at 4.28%.	58,195	-	(22,542)	35,653	23,517



# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2007</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 29, 2008</u>	<u>Due Within 1 Year</u>
1999 Special Assessment Limited Tax Bonds maturing serially through fiscal 2009 in annual payments ranging from \$21,000 to \$25,000 and bearing interest ranging from 4.35% to 4.40%.	\$ 46,000	\$ -	\$ (21,000)	\$ 25,000	\$ 25,000
2007 Capital Improvement Bonds maturing serially through 2018 in annual payments ranging from \$45,000 to \$75,000 and bearing interest ranging from 4.30% to 4.60%.	-	585,000	-	585,000	45,000
Liability for accrued compensated absences	<u>261,956</u>	<u>-</u>	<u>(1,192)</u>	<u>260,764</u>	<u>-</u>
<b>Total governmental activities long-term debt</b>	<u><b>1,296,195</b></u>	<u><b>585,000</b></u>	<u><b>(240,428)</b></u>	<u><b>1,640,767</b></u>	<u><b>278,698</b></u>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2007</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 29, 2008</u>	<u>Due Within 1 Year</u>
<b>Business-type activities</b>					
<b>Enterprise Funds</b>					
Water Revenue Bonds maturing serially through fiscal 2020 in annual payments ranging from \$15,000 to \$30,000 and bearing interest at 5%.	\$ 275,000	\$ -	\$ (15,000)	\$ 260,000	\$ 15,000
1997 Sewer Revenue Refunding Bonds, repaid in October 2007.	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
<b>Total business-type activities long-term debt</b>	<u><b>325,000</b></u>	<u><b>-</b></u>	<u><b>(65,000)</b></u>	<u><b>260,000</b></u>	<u><b>15,000</b></u>
<b>Total long-term debt</b>	<u><b>\$1,621,195</b></u>	<u><b>\$ 585,000</b></u>	<u><b>\$ (305,428)</b></u>	<u><b>\$1,900,767</b></u>	<u><b>\$ 293,698</b></u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

The Village's Water and Sewer Enterprise Fund 1980 Water Revenue Bond requires the Village to maintain cash reserves of approximately \$50,000. The Water and Sewer Enterprise Fund had excess reserves of approximately \$80,000 at February 29, 2008.

The Village's 2000 Revenue Bond for the Recreation Center in the debt service funds requires the Village to maintain a cash reserve of approximately \$24,000. This fund had excess reserves of approximately \$1,000.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows:

	<b>Governmental activities</b>		<b>Business-type activities</b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2009	\$ 278,698	\$ 55,044	\$ 15,000	\$ 13,000
2010	209,982	44,042	15,000	12,250
2011	158,405	36,116	20,000	11,500
2012	138,989	30,152	20,000	10,500
2013	144,592	24,463	20,000	9,500
2014-2018	449,337	52,474	115,000	31,750
2019-2020	<u>-</u>	<u>-</u>	<u>55,000</u>	<u>4,250</u>
	<b><u>\$1,380,003</u></b>	<b><u>\$ 242,291</u></b>	<b><u>\$ 260,000</u></b>	<b><u>\$ 92,750</u></b>

Total interest expense for the Village for the year was \$63,096.

### G. Lease disclosures

#### **Lessor – operating leases**

The Village entered into lease agreements with two communication companies to lease a water tower as a site for the companies' telecommunications equipment. The initial term of the lease agreement with one company was for five years with the right to extend the lease for four additional five year terms. The initial term of the lease agreement with the other company was for five years with the right to extend the lease for three additional five year terms.

Rental income from the lease of the water tower reported in the Recreation Center Special Revenue Fund amounted to \$19,680 for the year ended February 29, 2008. Future minimum rentals related to these leases are as follows:

<b><u>Years ending February 28</u></b>	<b><u>Amount</u></b>
2009	\$ 20,340
2010	14,400
2011	12,420
2012	<u>4,140</u>
<b>Total</b>	<b><u>\$ 51,300</u></b>

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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The Village has a lease/operation agreement with a local skating association. This agreement is for the use and operation of the Recreation Center for ice skating activities. The agreement is renewable annually. Rental income related to this agreement reported in the Recreation Center Special Revenue Fund amounted to \$30,000 for the year ended February 29, 2008.

The Village entered into a lease agreement with a company for use of the Village pier. Rental income from the lease reported in the General Fund amounted to \$126,978 for the year ended February 29, 2008. The Village renewed this lease for a period from January 1, 2007 through December 30, 2016. The annual lease amount begins at \$126,978, with increases based on the performance of the franchise fee revenues as reported by all boat lines to Mackinac Island each year as follows:

- 1.5% increase or less equals 1.5% increase in pier lease.
- 1.6% - 5% increase equals increase in pier lease equal to reported increase.
- Greater than 5% increase equals pier lease capped at 5% increase.

#### 4. OTHER INFORMATION

##### A. Retirement plans

###### **Defined benefit pension plan**

###### **Plan description**

The Village established a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The police officers at the Village are the only employees eligible to participate in this plan. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling (800) 767-6377.

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

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### Funding policy

The Village is required to contribute at an actuarially determined rate; the current rate is 11.42% of annual covered payroll. Per the Village's contract with the Police Officers Labor Council, the Village's costs and contributions to this plan shall be limited to 10% of gross wages per year, with the employee responsible for any remainder. Employees are currently required to contribute 3.23%. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

### Annual pension cost

For the year ended February 29, 2008, the Village's annual pension cost of \$27,486 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

### Trend information

#### Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/06	\$ 20,621	100%	\$ -
2/28/07	24,388	100%	-
2/29/08	27,486	100%	-

# VILLAGE OF MACKINAW CITY

## NOTES TO FINANCIAL STATEMENTS

### Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) -Entry Age (b)</b>	<b>Over- funded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/04	\$ 261,493	\$ 325,387	\$ (63,894)	80%	\$ 232,553	(27)%
12/31/05	316,221	375,899	(59,678)	84%	238,190	(25)%
12/31/06	372,623	393,638	(21,015)	95%	228,445	(9)%

### **Defined contribution pension plan**

#### **Plan description**

The Village provides pension benefits for all of its full-time employees through a defined contribution plan, the Village of Mackinaw City Pension Plan and Trust, which is administered and maintained through a life insurance company. Benefits depend solely on amounts contributed to the Plan, plus investment earnings. Each individual employee has a flexible retirement annuity. Employees are eligible to participate after one year of continuous employment and having attained the age of 19. The contribution to the Plan is made by the Village based upon 10% of employee's base pay, excluding overtime.

Plan provisions and contribution requirements are established and may be amended by the Village Council. Normal retirement age is the employee's 55th birthday or the 10th anniversary of the participation commencement date. Participants are 100% vested upon entry date into the Plan. The Village made the required 10% contribution in the amount of \$73,436 for the plan year ended February 29, 2008.

### **B. Risk management and litigation**

The Village is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

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## **SUPPLEMENTARY INFORMATION**

# VILLAGE OF MACKINAW CITY

## DETAIL SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
<b>Property taxes</b>				
Current property taxes	\$ 1,191,400	\$ 1,191,400	\$ 1,200,267	\$ 8,867
Property tax administration fees	30,000	30,000	19,821	(10,179)
<b>Total property taxes</b>	<b>1,221,400</b>	<b>1,221,400</b>	<b>1,220,088</b>	<b>(1,312)</b>
<b>State revenue</b>				
Liquor licenses	9,500	9,500	9,154	(346)
Other state revenue	68,600	68,600	70,592	1,992
<b>Total state revenue</b>	<b>78,100</b>	<b>78,100</b>	<b>79,746</b>	<b>1,646</b>
<b>Licenses and permits</b>				
Business licenses and permits	3,500	3,500	9,485	5,985
Non-business licenses and permits	6,800	6,800	6,620	(180)
<b>Total licenses and permits</b>	<b>10,300</b>	<b>10,300</b>	<b>16,105</b>	<b>5,805</b>
<b>Contributions</b>				
Other governmental units	15,000	15,000	20,532	5,532
Other	2,600	2,600	2,575	(25)
<b>Total contributions</b>	<b>17,600</b>	<b>17,600</b>	<b>23,107</b>	<b>5,507</b>
<b>Charges for services</b>	<b>1,380</b>	<b>1,380</b>	<b>910</b>	<b>(470)</b>
<b>Fines and forfeits</b>	<b>1,150</b>	<b>1,150</b>	<b>2,931</b>	<b>1,781</b>
<b>Interest earnings</b>	<b>21,500</b>	<b>21,500</b>	<b>42,844</b>	<b>21,344</b>
<b>Rents</b>	<b>136,700</b>	<b>136,700</b>	<b>136,578</b>	<b>(122)</b>
<b>Miscellaneous</b>	<b>23,700</b>	<b>23,700</b>	<b>6,058</b>	<b>(17,642)</b>
<b>Total revenues</b>	<b>\$ 1,511,830</b>	<b>\$ 1,511,830</b>	<b>\$ 1,528,367</b>	<b>\$ 16,537</b>



# VILLAGE OF MACKINAW CITY

## DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
<b>Legislative</b>				
<b>Village council</b>	<u>\$ 32,600</u>	<u>\$ 32,600</u>	<u>\$ 31,896</u>	<u>\$ 704</u>
<b>General government</b>				
Village manager	92,880	92,880	106,496	(13,616)
Clerk - elections	2,000	2,000	1,563	437
Professional services	24,700	24,700	29,367	(4,667)
Clerk	36,305	36,305	38,187	(1,882)
Treasurer	36,210	36,210	38,165	(1,955)
Community development director	77,350	77,350	31,333	46,017
Village hall and grounds	147,650	147,650	113,675	33,975
Village property - other	92,550	92,550	69,987	22,563
Promotional	54,150	54,150	63,044	(8,894)
<b>Total general government</b>	<u>563,795</u>	<u>563,795</u>	<u>491,817</u>	<u>71,978</u>
<b>Public safety</b>				
Police department	456,750	456,750	464,859	(8,109)
Fire department	93,000	93,000	93,214	(214)
<b>Total public safety</b>	<u>549,750</u>	<u>549,750</u>	<u>558,073</u>	<u>(8,323)</u>
<b>Recreation and culture</b>	<u>58,650</u>	<u>58,650</u>	<u>44,533</u>	<u>14,117</u>
<b>Other functions</b>	<u>8,700</u>	<u>8,700</u>	<u>7,402</u>	<u>1,298</u>
<b>Total expenditures</b>	<u>1,213,495</u>	<u>1,213,495</u>	<u>1,133,721</u>	<u>79,774</u>
<b>Other financing uses</b>				
Transfers out	<u>298,335</u>	<u>298,335</u>	<u>246,216</u>	<u>52,119</u>
<b>Total expenditures and other financing uses</b>	<u>\$ 1,511,830</u>	<u>\$ 1,511,830</u>	<u>\$ 1,379,937</u>	<u>\$ 131,893</u>

**VILLAGE OF MACKINAW CITY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**FEBRUARY 29, 2008**

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 134,040	\$ 66,660	\$ 529	\$ 201,229
Investments	107,424	-	424	107,848
Taxes receivable	3,538	-	-	3,538
Special assessments receivable	-	19,552	-	19,552
Restricted assets	-	23,000	-	23,000
<b>Total assets</b>	<b>\$ 245,002</b>	<b>\$ 109,212</b>	<b>\$ 953</b>	<b>\$ 355,167</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,217	\$ -	\$ -	\$ 2,217
Due to other funds	5,722	-	-	5,722
Deferred revenue	-	19,552	-	19,552
<b>Total liabilities</b>	<b>7,939</b>	<b>19,552</b>	<b>-</b>	<b>27,491</b>
<b>Fund balances</b>				
Reserved				
Reserved - recreation facilities	7,972	-	-	7,972
Debt service	-	89,660	-	89,660
Unreserved				
Designated				
Accrued sick and vacation	75,261	-	-	75,261
Undesignated	153,830	-	953	154,783
<b>Total fund balances</b>	<b>237,063</b>	<b>89,660</b>	<b>953</b>	<b>327,676</b>
<b>Total liabilities and fund balances</b>	<b>\$ 245,002</b>	<b>\$ 109,212</b>	<b>\$ 953</b>	<b>\$ 355,167</b>

# VILLAGE OF MACKINAW CITY

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
<b>Revenues</b>				
Property taxes	\$ 32,846	\$ -	\$ -	\$ 32,846
Special assessments	-	17,206	-	17,206
Contributions	32,150	-	-	32,150
Charges for services	21,174	-	-	21,174
Local contribution	-	22,783	-	22,783
Interest	2,569	8,488	1,102	12,159
Rents	49,680	-	-	49,680
Miscellaneous	165	-	-	165
<b>Total revenues</b>	<b>138,584</b>	<b>48,477</b>	<b>1,102</b>	<b>188,163</b>
<b>Expenditures</b>				
Current				
General government	38,366	-	-	38,366
Recreation	106,631	-	-	106,631
Other	34,702	-	-	34,702
Capital outlay	13,760	-	-	13,760
Principal payments	-	208,605	-	208,605
Interest and paying agent fees	-	36,209	-	36,209
<b>Total expenditures</b>	<b>193,459</b>	<b>244,814</b>	<b>-</b>	<b>438,273</b>
<b>Revenues (under) over expenditures</b>	<b>(54,875)</b>	<b>(196,337)</b>	<b>1,102</b>	<b>(250,110)</b>
<b>Other financing sources</b>				
Bond proceeds	-	-	585,000	585,000
Transfers in	92,355	210,240	-	302,595
Transfers out	-	(23,487)	(586,090)	(609,577)
<b>Total other financing sources (uses)</b>	<b>92,355</b>	<b>186,753</b>	<b>(1,090)</b>	<b>278,018</b>
<b>Net change in fund balances</b>	<b>37,480</b>	<b>(9,584)</b>	<b>12</b>	<b>27,908</b>
Fund balances, beginning of year	199,583	99,244	941	299,768
<b>Fund balances, end of year</b>	<b>\$ 237,063</b>	<b>\$ 89,660</b>	<b>\$ 953</b>	<b>\$ 327,676</b>

**VILLAGE OF MACKINAW CITY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**

**FEBRUARY 29, 2008**

	<b>Cemetery</b>	<b>Recreation Complex</b>	<b>Recreation Center</b>	<b>Performance Shell</b>	<b>Planning Commission</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 49,797	\$ 14,690	\$ 23,063	\$ 830	\$ 2,552
Investments	39,908	11,772	18,484	665	2,046
Taxes receivable	3,538	-	-	-	-
<b>Total assets</b>	<b>\$ 93,243</b>	<b>\$ 26,462</b>	<b>\$ 41,547</b>	<b>\$ 1,495</b>	<b>\$ 4,598</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	2,229	1,599	1,471	-	423
<b>Total liabilities</b>	<b>2,229</b>	<b>1,599</b>	<b>1,471</b>	<b>-</b>	<b>423</b>
<b>Fund balances</b>					
Reserved - recreation facilities	-	7,972	-	-	-
Unreserved					
Designated					
Accrued sick and vacation	-	-	-	-	-
Undesignated	91,014	16,891	40,076	1,495	4,175
<b>Total fund balances</b>	<b>91,014</b>	<b>24,863</b>	<b>40,076</b>	<b>1,495</b>	<b>4,175</b>
<b>Total liabilities and fund balances</b>	<b>\$ 93,243</b>	<b>\$ 26,462</b>	<b>\$ 41,547</b>	<b>\$ 1,495</b>	<b>\$ 4,598</b>

<b>Economic Development Commission</b>	<b>Employee Sick and Vacation</b>	<b>Total</b>
\$ 99	\$ 43,009	\$ 134,040
80	34,469	107,424
-	-	3,538
<b>\$ 179</b>	<b>\$ 77,478</b>	<b>\$ 245,002</b>
\$ -	\$ 2,217	\$ 2,217
-	-	5,722
-	<b>2,217</b>	<b>7,939</b>
-	-	7,972
-	75,261	75,261
179	-	153,830
<b>179</b>	<b>75,261</b>	<b>237,063</b>
<b>\$ 179</b>	<b>\$ 77,478</b>	<b>\$ 245,002</b>

# VILLAGE OF MACKINAW CITY

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2008

	Cemetery	Recreation Complex	Recreation Center	Performance Shell	Planning Commission
<b>Revenues</b>					
Taxes	\$ 32,846	\$ -	\$ -	\$ -	\$ -
Contributions from other governmental units	-	1,000	31,150	-	-
Charges for services	10,120	3,142	5,412	-	2,500
Interest	1,008	-	289	12	86
Rents	-	-	49,680	-	-
Miscellaneous	-	25	140	-	-
<b>Total revenues</b>	<b>43,974</b>	<b>4,167</b>	<b>86,671</b>	<b>12</b>	<b>2,586</b>
<b>Expenditures</b>					
Current					
General government	38,366	-	-	-	-
Recreation	-	30,301	74,562	1,768	-
Other	-	-	-	-	7,005
Capital outlay	340	-	13,420	-	-
<b>Total expenditures</b>	<b>38,706</b>	<b>30,301</b>	<b>87,982</b>	<b>1,768</b>	<b>7,005</b>
Revenues over (under) expenditures	5,268	(26,134)	(1,311)	(1,756)	(4,419)
<b>Other financing sources</b>					
Transfers in	-	50,300	32,355	2,000	7,700
<b>Net change in fund balances</b>	<b>5,268</b>	<b>24,166</b>	<b>31,044</b>	<b>244</b>	<b>3,281</b>
Fund balances, beginning of year	85,746	697	9,032	1,251	894
<b>Fund balances, end of year</b>	<b>\$ 91,014</b>	<b>\$ 24,863</b>	<b>\$ 40,076</b>	<b>\$ 1,495</b>	<b>\$ 4,175</b>

<b>Economic Development Commission</b>	<b>Employee Sick and Vacation</b>	<b>Total</b>
\$ -	\$ -	\$ 32,846
-	-	32,150
-	-	21,174
63	1,111	2,569
-	-	49,680
-	-	165
<b>63</b>	<b>1,111</b>	<b>138,584</b>
-	-	38,366
-	-	106,631
4,266	23,431	34,702
-	-	13,760
<b>4,266</b>	<b>23,431</b>	<b>193,459</b>
(4,203)	(22,320)	(54,875)
-	-	<b>92,355</b>
<b>(4,203)</b>	<b>(22,320)</b>	<b>37,480</b>
4,382	97,581	199,583
<b>\$ 179</b>	<b>\$ 75,261</b>	<b>\$ 237,063</b>

# VILLAGE OF MACKINAW CITY

## COMBINING BALANCE SHEET NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 29, 2008

	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Special Assessment Bonds	1997 Act 99 Installment Contract
<b>ASSETS</b>					
Cash and cash equivalents	\$ 750	\$ 643	\$ 83	\$ 48,546	\$ -
Special assessments receivable	-	-	-	-	-
Restricted assets	-	-	23,000	-	-
<b>Total assets</b>	<b>\$ 750</b>	<b>\$ 643</b>	<b>\$ 23,083</b>	<b>\$ 48,546</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Fund balances</b>					
Reserved for debt service	750	643	23,083	48,546	-
<b>Total liabilities and fund balances</b>	<b>\$ 750</b>	<b>\$ 643</b>	<b>\$ 23,083</b>	<b>\$ 48,546</b>	<b>\$ -</b>



<b>1998 Act 99 Installment Contract</b>	<b>1999 Special Assessment Bonds</b>	<b>2002 General Obligation Bonds</b>	<b>2004 General Obligation Bonds</b>	<b>2005 Act 99 Installment Contract Fire Truck</b>	<b>Total</b>
\$ -	\$ 15,772	\$ 866	\$ -	\$ -	\$ 66,660
-	19,552	-	-	-	19,552
-	-	-	-	-	23,000
<b>\$ -</b>	<b>\$ 35,324</b>	<b>\$ 866</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 109,212</b>
<b>\$ -</b>	<b>\$ 19,552</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,552</b>
<b>-</b>	<b>15,772</b>	<b>866</b>	<b>-</b>	<b>-</b>	<b>89,660</b>
<b>\$ -</b>	<b>\$ 35,324</b>	<b>\$ 866</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 109,212</b>

**VILLAGE OF MACKINAW CITY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR DEBT SERVICE FUNDS**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>1998 Act 99 Installment Contract Ice System</b>	<b>2000 General Obligation Bonds</b>	<b>2000 Revenue Bond Recreation Center</b>	<b>1997 Special Assessment Bonds</b>	<b>1997 Act 99 Installment Contract</b>
<b>Revenues</b>					
Special assessments	\$ -	\$ -	\$ -	\$ 3,073	\$ -
Local contributions	-	-	-	-	-
Interest	3	3	-	1,695	-
<b>Total revenues</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>4,768</b>	<b>-</b>
<b>Expenditures</b>					
Principal payments	32,094	25,000	20,000	-	16,173
Interest and paying agent fees	1,502	3,506	4,835	-	234
<b>Total expenditures</b>	<b>33,596</b>	<b>28,506</b>	<b>24,835</b>	<b>-</b>	<b>16,407</b>
<b>Revenues under expenditures</b>	<b>(33,593)</b>	<b>(28,503)</b>	<b>(24,835)</b>	<b>4,768</b>	<b>(16,407)</b>
<b>Other financing sources</b>					
Transfers in	33,597	28,406	24,836	-	16,407
Transfers out	-	-	-	-	-
<b>Total other financing sources</b>	<b>33,597</b>	<b>28,406</b>	<b>24,836</b>	<b>-</b>	<b>16,407</b>
<b>Net change in fund balances</b>	<b>4</b>	<b>(97)</b>	<b>1</b>	<b>4,768</b>	<b>-</b>
Fund balances, beginning of year	746	740	23,082	43,778	-
<b>Fund balances, end of year</b>	<b>\$ 750</b>	<b>\$ 643</b>	<b>\$ 23,083</b>	<b>\$ 48,546</b>	<b>\$ -</b>

<b>1998 Act 99 Installment Contract</b>	<b>1999 Special Assessment Bonds</b>	<b>2002 General Obligation Bonds</b>	<b>2004 General Obligation Bonds</b>	<b>2005 Act 99 Installment Contract Fire Truck</b>	<b>Total</b>
\$ -	\$ 8,070	\$ 6,063	\$ -	\$ -	\$ 17,206
-	-	-	22,783	-	22,783
-	1,914	4,873	-	-	8,488
-	<b>9,984</b>	<b>10,936</b>	<b>22,783</b>	-	<b>48,477</b>
22,542	21,000	30,000	30,000	11,796	208,605
2,252	2,245	7,385	9,281	4,969	36,209
<b>24,794</b>	<b>23,245</b>	<b>37,385</b>	<b>39,281</b>	<b>16,765</b>	<b>244,814</b>
<b>(24,794)</b>	<b>(13,261)</b>	<b>(26,449)</b>	<b>(16,498)</b>	<b>(16,765)</b>	<b>(196,337)</b>
				<b>4,969</b>	
24,794	23,487	25,450	16,498	16,765	210,240
-	(23,487)	-	-	-	(23,487)
<b>24,794</b>	<b>-</b>	<b>25,450</b>	<b>16,498</b>	<b>16,765</b>	<b>186,753</b>
-	<b>(13,261)</b>	<b>(999)</b>	-	-	<b>(9,584)</b>
-	29,033	1,865	-	-	99,244
<b>\$ -</b>	<b>\$ 15,772</b>	<b>\$ 866</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 89,660</b>

**VILLAGE OF MACKINAW CITY**  
**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECT FUNDS**

**FEBRUARY 29, 2008**

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	<b>2007 Capital Improvements</b>	<b>Waterfront Development</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 529	\$ 529
Investments	-	424	424
<b>Total assets (equal to fund balance - unreserved)</b>	<b><u>\$ -</u></b>	<b><u>\$ 953</u></b>	<b><u>\$ 953</u></b>

**VILLAGE OF MACKINAW CITY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR CAPITAL PROJECT FUNDS**

**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	<b>2007 Capital Improvements</b>	<b>Waterfront Development</b>	<b>Total</b>
<b>Revenues</b>			
Interest	\$ 1,090	\$ 12	\$ 1,102
<b>Other financing sources (uses)</b>			
Bond proceeds	585,000	-	585,000
Transfers out	(586,090)	-	(586,090)
<b>Total other financing uses</b>	(1,090)	-	(1,090)
<b>Net change in fund balances</b>	-	12	12
Fund balances, beginning of year	-	941	941
<b>Fund balances, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ 953</u></u>	<u><u>\$ 953</u></u>

**VILLAGE OF MACKINAW CITY**  
**COMBINING STATEMENT OF CHANGES IN**  
**ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 29, 2008**

	Balance March 1, 2007	Additions	Deductions	Balance February 29, 2008
<b><u>TAX COLLECTION FUND</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 100	\$ 1,825,848	\$ 1,825,809	\$ 139
<b>LIABILITIES</b>				
Due to other funds	\$ 100	\$ 1,698,553	\$ 1,698,514	\$ 139
Due to component units	-	38,800	38,800	-
Due to other governmental units	-	88,495	88,495	-
<b>Total liabilities</b>	<b>\$ 100</b>	<b>\$ 1,825,848</b>	<b>\$ 1,825,809</b>	<b>\$ 139</b>
<b><u>EMPLOYEE FLEX PLAN FUND</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,588	\$ 16,681	\$ 16,433	\$ 4,836
<b>LIABILITIES</b>				
Due to employees	\$ 4,588	\$ 16,681	\$ 16,433	\$ 4,836
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,688	\$ 1,842,529	\$ 1,842,242	\$ 4,975
<b>LIABILITIES</b>				
Due to other funds	\$ 100	\$ 1,698,553	\$ 1,698,514	\$ 139
Due to component units	-	38,800	38,800	-
Due to other governmental units	-	88,495	88,495	-
Due to employees	4,588	16,681	16,433	4,836
<b>Total liabilities</b>	<b>\$ 4,688</b>	<b>\$ 1,842,529</b>	<b>\$ 1,842,242</b>	<b>\$ 4,975</b>

## **INTERNAL CONTROL AND COMPLIANCE**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

August 29, 2008

Village Council  
Village of Mackinaw City  
Mackinaw City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Mackinaw City*** (the "Village"), as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2008-1 and 2008-2.

**Finding 2008-1:**      **Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.**

**Criteria:**              All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Village's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing account data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition:**              As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes and part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the Village's internal controls.

**Cause:**                      This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

**Effect:**                      As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**Recommendation:**      When feasible, the Village should consider training internal accounting personnel to prepare the financial statements.

**Village's Response:** Due principally to state budget cuts and the related negative impact on cash funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

**Finding 2008-2**      **Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.**

**Criteria:** All Michigan governments are required to establish internal control with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the Village's management. Adequate segregation of duties as relates to the cash cycle of a municipality requires separation of the management function, the custody of assets function and the accounting function.

**Condition:** The Village's staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting of those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the Village.

**Cause:** As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties with the accounting function.

**Effect:** As a result of this condition, the Village's system of internal control has safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

**Recommendation:** While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the Village Council.

**Village's Response:** As noted above, due to decreased cash flows of the Village, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2008-1 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the Village Council of the ***Village of Mackinaw City*** in a separate letter dated August 29, 2008.

The Village's response to the findings identified is described in the preceding paragraphs. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 29, 2008

Village Council  
Village of Mackinaw City  
Mackinaw City, Michigan

In planning and performing our audit of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Mackinaw City*** (the “Village”) as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Village’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a deficiency in internal control that we consider to be a significant deficiency and one deficiency that we consider to be a material weakness. These deficiencies have been documented in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards*. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following pages.

This communication is intended solely for the information and use of the audit committee, management, the Village Council and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect our report dated August 29, 2008 on the financial statements of the Village.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

**VILLAGE OF MACKINAW CITY  
COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED FEBRUARY 29, 2008**

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**Invoice Review and Approval for Payment**

During the process of gaining an understanding of the expenditure cycle of the Village, we noted that invoices received from vendors for goods or services provided are delivered to the Village Hall. These vendor statements are not opened by the Village accounting personnel, but rather, are distributed directly to department heads for review and approval. It is the responsibility of the department head to ensure that the goods or services were delivered to the Village and that the pricing is appropriate before approving for payment. The invoices, at the discretion of the department heads, are then returned to the Village Clerk for payment. As the invoices are not logged when received, it is difficult for accounting personnel to know what invoices are outstanding at any given time. This process also could result in late payments if department heads do not immediately review, approve and return the invoices to the Village Clerk for payment. Further, if invoices are not returned by the department heads in a timely manner, the financial statements of the Village may be misstated as all expenditures for the period would not be appropriately recorded.

We recommend the Village consider recording the invoices as accounts payable upon receipt of the invoice and then forward them to the department heads for review and approval before authorizing the Village Clerk to make payment.

**Fringe Benefit Allocation**

The Village utilizes a clearing account in the General Fund for purposes of processing transactions related to payroll benefits. Individual funds are charged a fringe rate each payroll period. These amounts are then used to cover fringe costs. Appropriately estimating the anticipated annual cost of fringe benefits is necessary if amounts charged to funds are to be adequate to meet the cost of the fringe benefits. An analysis of the fringe benefit clearing account near year end indicated that the fringe rate used by the Village over time was not sufficient to cover the costs of fringe benefits. This resulted from the increased costs of fringes, namely medical benefits, over the past several years. The rate was adjusted and costs reallocated to the funds by year end.

We recommended in the prior year, and continue to recommend, that the fringe analysis be performed each year at the time that the budget is being established. Estimated costs of fringe benefits would be used to determine the appropriate budgeted fringe rate. Quarterly or semiannual evaluations of the fringe benefit clearing account should be performed to ensure that the budgeted fringe rate will provide the funds necessary to make the fringe benefit payments. If an inaccurate rate was established or if fringe costs change significantly from those budgeted, the fringe rate could be adjusted on a timely basis.

### **SEC Rule 15C2-12 Disclosure Requirements**

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The Village is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

### **Michigan Finance Qualifying Statement**

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The Village must submit their qualifying statement electronically using the Michigan Department of Treasurer's website. The Village Manager must contact the Local Audit and Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by August 31, 2008. The Village filed their qualifying statement on August 28, 2008.

### **Electronically Filing the Financial Statements**

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the Village Clerk to enable the Village to comply.

### **PREVIOUS YEAR COMMENTS REVISITED**

#### **Annual Authorization of Bank Accounts and Check Signers**

We noted that the Village Council did not annually authorize check signers or use of specific financial institutions for its deposits. During the year ended February 29, 2008, the Village, as documented in Village Council minutes, did authorize check signers and financial institution depositories. It is the Village's intention to incorporate such authorizations annually at the organizational Village Council meeting.

### **Ambulance Fund Accounts Receivable - Uncollectible Accounts**

We recommended the Village establish a policy for the review and write-off of ambulance receivables, when necessary, to reduce the risk associated with potential misappropriation of assets (cash) that could result from writing off a balance collected. During the current year, Village management implemented a policy for periodic review of outstanding ambulance receivables. Further, a set of parameters have been established to define when a balance may be authorized for write-off.

### **Credit Card Policy**

We recommended the Village adopt a credit card policy pursuant to Michigan Public Act 266 of 1995. The Village adopted the policy in 2007.

### **Personnel File Management**

We provided information regarding the accumulation of employee payroll information separate from employee medical insurance related data in order to comply with the Health Insurance Personal Portability Act. The Village has established separate files for all new hires during fiscal 2008, and will separate the current personnel files over the next 12 months.

### **Employee Time Cards**

We noted that employee time cards were reviewed by department supervisors, but were not evidencing review and approval by initialing the cards with approval. This information was communicated to department supervisors during the year. Continued effort has been made to ensure all time cards are reviewed, approved and initialed each payroll period.

### **Skating Association Lease/Operating Agreement for use of Recreation Center**

We noted that the lease/operating agreement with the local skating association for the use and operation of the Village's Recreation Center had expired. As the Village was continuing to lease the facilities to the skating association, we recommended the Village require the skating association to sign a new contract that defines appropriate use of the facilities and the term of the lease. The Village executed a new contract during fiscal 2008.

### **Conclusion**

We would like to thank Village Council for its business and to thank the Village management team for their assistance during the audit.